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SECURITY AGREEMENT

~~INTERSTATE COMMERCE COMMISSION~~

THIS SECURITY AGREEMENT dated as of February 18, 1976 (hereinafter referred to as the "Agreement") from Yreka Western Railway Company, a California corporation (hereinafter referred to as "Mortgagor"), to BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association (hereinafter referred to as "Mortgagee").

W I T N E S S E T H:

WHEREAS, the Mortgagor is justly indebted to the Mortgagee in a principal amount not in excess of \$167,985 as evidenced by that certain Loan Agreement dated February 18, 1976 between Mortgagor and Mortgagee ("Loan Agreement") and a Promissory Note of the Mortgagor (the "Note") payable to the order of the Mortgagee and expressed to bear interest at the rate of interest per annum specified therein and to mature January 15, 1981

WHEREAS, said Note and the principal and interest thereon and any and all extensions or renewals thereof in whole or in part and all other sums at any time due or owing from or required to be paid by the Mortgagor under the terms hereof or of said Loan Agreement or of said Note are hereinafter referred to as "indebtedness hereby secured";

Mortgagor, for and in consideration of the debts and other matters hereinafter mentioned, does hereby grant, sell, mortgage and convey unto Mortgagee, its successors and assigns and does hereby grant to Mortgagee a security interest in the equipment described in the attached Schedule A hereto and all of the estate, right, title and interest of the Mortgagor therein, whether now owned or hereafter acquired, together with any and all substitutions therefor, and all accessories, parts, improvements and devices now or hereafter affixed to each of the said equipment and substitutes therefor (all being hereinafter referred to as the "Equipment").

TO HAVE AND TO HOLD the Equipment unto Mortgagee, its successors and assigns, to its and their sole use forever, and Mortgagor, for itself and its successors and assigns, does hereby covenant to and with Mortgagee, its successors and assigns, that Mortgagor is lawfully possessed of the Equipment, that: 1) the Equipment is Mortgagor's own property free and clear from any and all liens or encumbrances excepting only the lien of this Agreement, 2) no mortgage, deed of trust, no tax lien, or any other lien of any nature whatsoever which covers or affects any property or interest therein of Mortgagor now attaches or hereafter will attach to the Equipment or the interests of Mortgagor in the Lease or in any manner affects or will affect adversely the right, title and interest of Mortgagee therein, 3) Mortgagor, its successors and assigns, shall warrant and defend the Equipment to Mortgagee, its successors and assigns, against the claims, demands and rights of any and all persons (except those arising hereafter out of any act or omission on the part of, or as the result of the interest of, Mortgagee, or assigns), and 4) Mortgagor agrees to indemnify, protect, save and keep harmless Mortgagee from and against any loss, cost or expense (including legal fees and expenses) incurred by Mortgagee,

as a result of the imposition or enforcement of any lien against the Equipment: a) by any taxing authority because of the non-payment by Mortgagor of such taxes, or b) arising out of any claims against Mortgagor unrelated to the use or operation of the Equipment, or the transactions contemplated hereby; the foregoing indemnity shall survive the termination of the Lease and of this Agreement.

PROVIDED, that the Equipment is granted, mortgaged, sold and conveyed hereunder by Mortgagor to Mortgagee as security for the performance by Mortgagor of all its obligations to pay and all sums from time to time owing with respect to the indebtedness hereby secured.

AND PROVIDED FURTHER, that if Mortgagor or its successors and assigns, shall pay to Mortgagee, or its successors or assigns, all the indebtedness hereby secured, then this Agreement shall be void, otherwise this Agreement shall remain in full force and effect.

Mortgagor hereby covenants and agrees that if there shall be any default in the payment of any of the indebtedness hereby secured on the day or days, respectively, on which the same shall become due, whether by lapse of time, acceleration or otherwise; or if Mortgagor shall sell or assign, or attempt to sell or assign, the Equipment or any portion thereof; or if any representation or warranty made herein shall prove to be untrue in any material respect; or if any attachment, writ or distress warrant shall be levied on the Equipment or any portion thereof, or the Equipment, or any portion thereof shall be placed in the hands of a receiver, trustee, or representative of a court or creditors, or shall become the subject matter of litigation which might in the opinion of Mortgagee result in substantial impairment or loss of the security provided herein then, and in any such event, Mortgagee, or its successors or assigns, shall thereupon have the right (as against Mortgagor, its successors and assigns, or to the extent Mortgagor, its successors or assigns, may have such right), to take immediate possession of the Equipment, or any portion thereof, and for the purpose may pursue the same wherever any of the Equipment may be found and may enter any of the premises of Mortgagor with or without force or process of law wherever any of the Equipment may be located, and Mortgagee shall have the right to take possession of, keep and store the same until sold, or remove and sell and dispose of at public or private sale to the extent permitted by law, at one or more sales, as an entirety or in parcels, the Equipment, or in lieu of or in addition to exercising the power of sale hereinabove given, to proceed by a suit or suits in equity or at law, whether for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, or for any foreclosure hereunder, or for the sale of the Equipment under the judgment or decree of any court or courts of competent jurisdiction. To the full extent that the Mortgagor may lawfully so do, Mortgagor agrees that Mortgagor will not at any time claim the benefit of any stay, extension, appraisalment, redemption or similar law now or hereafter in force.

Mortgagee shall be entitled to reimbursement from the proceeds of any such sale or foreclosure for all costs and charges

incurred by it or its agents or attorneys in taking, removing, keeping, storing and selling the Equipment, including any and all attorneys' fees and other costs and expenses incurred in connection with any such foreclosure or sale. Any surplus remaining after reimbursement for such costs and expenses and after payment of the indebtedness hereby secured shall be paid to Mortgagor.

Mortgagor agrees that, at its own cost and expense, it will maintain and keep each unit of the Equipment in good order and repair, reasonable wear and tear excepted and will also maintain each unit of the Equipment in accordance with the standards from time to time in effect, under the Interchange Rules of the Association of American Railroads, if applicable.

Mortgagor will cause each unit of the Equipment to be kept numbered with the identifying number of the Mortgagor as set forth in Schedule A hereto, or, in the case of Equipment not there listed, such identifying number as shall be set forth in any amendment or supplement hereto extending this Agreement to cover such Equipment, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of each unit, in letters not less than one inch in height, the words "Ownership Subject to a Security Agreement Filed under the Interstate Commerce Act, Section 20c" or other appropriate words designated by Mortgagee with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the Mortgagor's interest in the Equipment and its rights under this Agreement. The Mortgagor will not permit any such unit to be placed in operation or exercise any control or dominion over the same until such markings shall have been made thereon and will replace or will cause to be replaced promptly any such markings which may be removed, defaced or destroyed. The Mortgagor will not permit the identifying number of any unit of the Equipment to be changed except in accordance with a statement of new number or numbers to be substituted therefor, which statement previously shall have been filed with the Mortgagee and filed, recorded and deposited by the Mortgagee in all public offices where this Agreement shall have been filed, recorded and deposited.

Except as provided in the immediately preceding paragraph, the Mortgagor will not allow the name of any person, association or corporation to be placed on any unit of the Equipment as a designation that might be interpreted as a claim of ownership; provided, however, that the Equipment may be lettered with the names or initials or other insignia customarily used by the Mortgagor.

During the term of this Agreement, the Mortgagor will comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Equipment) with all laws of the jurisdictions in which its operations involving the Equipment may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the Department of Transportation, the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or

jurisdiction over the Equipment, to the extent that such laws and rules affect the title, operation or use of the Equipment, and in the event that such laws or rules require any alteration, replacement or addition of or to any part of any unit of the Equipment, the Mortgagor will conform therewith at its own expense; provided, however, that the Mortgagor may, in good faith, contest the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Mortgagee adversely affect the property or rights of the Mortgagee under this Agreement.

The Mortgagor will, at its own expense cause this Agreement to be filed and recorded with the Interstate Commerce Commission in accordance with Section 20c of the Interstate Commerce Act. The Mortgagor will undertake the filing, registering, deposit, and recording required of the Mortgagee under this Agreement and will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, record (and will refile, re-register, deposit and redeposit or re-record whenever required) any and all further instruments required by law or reasonably requested by the Mortgagee for the purpose of proper protection, to its satisfaction, of the Mortgagee's interest in the Units, or for the purpose of carrying out the intention of this Agreement and Mortgagor will promptly furnish registering, depositing or recording, and an opinion or opinions of counsel for the Mortgagor with respect thereto satisfactory to the Mortgagee.

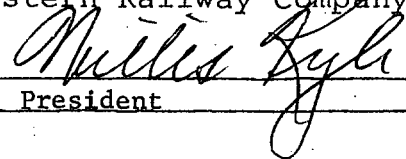
Mortgagor shall cause copies of all notices received in connection with the Equipment to be promptly delivered to Mortgagee at P. O. Box 660 - Yreka, California, Attention: L. T. Cecil, Vice President, or at such other address as Mortgagee shall designate.

All rights and remedies of Mortgagee hereunder are cumulative, and no delay on the part of Mortgagee in the exercise of any such right or remedy shall operate as a waiver thereof, and no single or partial exercise by Mortgagee of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy.

This Agreement shall be governed by the laws of the State of California, but Mortgagor and Mortgagee shall be entitled to all rights conferred by Section 20c of the Interstate Commerce Act.

IN WITNESS WHEREOF, Yreka Western Railway Company has caused these presents to be duly executed as of the 18th day of February, 1976.

Yreka Western Railway Company

By 
Title President

YREKA WESTERN RAILROAD COMPANY

SCHEDULE "A"

47 railroad boxcars -- 50 ft. 6 inch rebuilt box cars with 15 ft. double side doors each made up of one 9 ft. sliding door and one 6 ft. plug door, bearing road numbers

WP 35701 - 35702;

WP 35704 - 35706 inclusive;

WP 35708 - 35726 inclusive;

WP 35728 - 35750 inclusive.

Walter Ky

ICC RECORDING NUMBER _____